

STATE OF NEW MEXICO  
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY	)	
THE OIL CONSERVATION DIVISION FOR THE	)	
PURPOSE OF CONSIDERING:	)	CASE NO. 13,033
	)	
APPLICATION OF READ AND STEVENS, INC.,	)	
FOR APPROVAL OF A UNIT AGREEMENT,	)	
CHAVES COUNTY, NEW MEXICO	)	
	)	

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

March 27th, 2003

Santa Fe, New Mexico

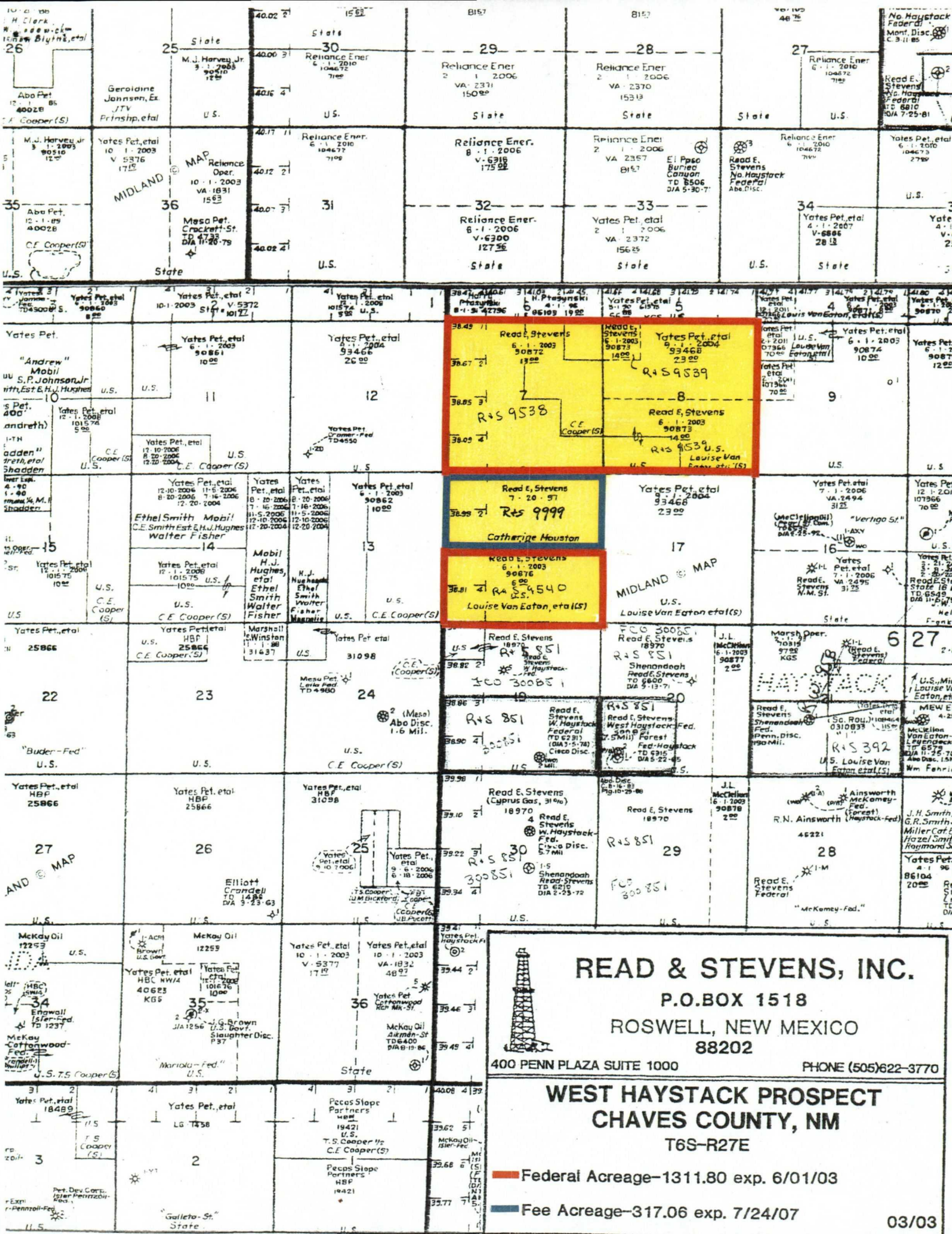
This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 27th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

STEVEN T. BRENNER, CCR  
 (505) 989-9317

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO  
READ & STEVENS, INC.  
OPERATOR

**EXHIBIT 1**



**READ & STEVENS, INC.**  
P.O. BOX 1518  
ROSWELL, NEW MEXICO  
88202

400 PENN PLAZA SUITE 1000 PHONE (505)622-3770

**WEST HAYSTACK PROSPECT**  
**CHAVES COUNTY, NM**  
T6S-R27E

Federal Acreage-1311.80 exp. 6/01/03  
 Fee Acreage-317.06 exp. 7/24/07

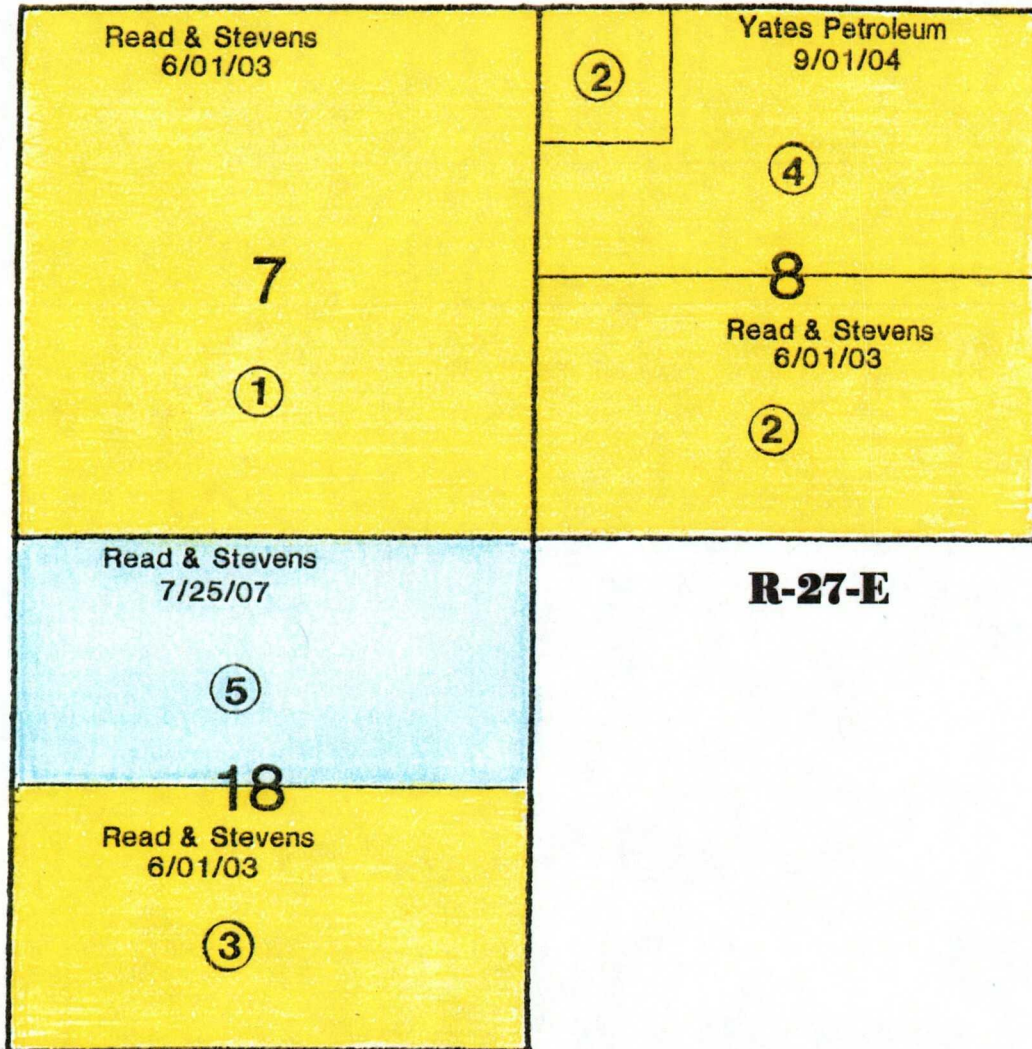
03/03



Original

READ & STEVENS, INC.  
EXHIBIT A  
WEST HAYSTACK AREA  
CHAVES CO., NEW MEXICO  
1910.86 gross acres

**T-6-S**



- Tract Number Listed on Exhibit B
- Public Land
- Private Land

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO  
READ & STEVENS, INC.  
OPERATOR

**EXHIBIT 2**

**UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
WEST HAYSTACK UNIT AREA  
COUNTY OF CHAVES  
STATE OF NEW MEXICO  
CONTRACT NO. NMNM109670X**

THIS AGREEMENT, entered into as of the 25th day of February, 2003, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

**W I T N E S S E T H:**

**WHEREAS**, the parties hereto are the owners of working, royalty, or other oil and gas interests in the unit area subject to this agreement; and

**WHEREAS**, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Sec. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a unit plan of development or operations of any oil and gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

**WHEREAS**, the parties hereto hold sufficient interests in the West Haystack Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

**WHEREAS**, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

**NOW, THEREFORE**, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

**1. ENABLING ACT AND REGULATIONS.**

The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as

of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the state in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

## **2. UNIT AREA.**

The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 1910.80 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" or "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as AO, and not less than four copies of the revised exhibits shall be filed with the proper Bureau of Land Management (BLM) office.

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

- (a) The unit operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of the month subsequent to the date of notice.
- (b) Said notice shall be delivered to the proper BLM office, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the unit operator of any objections.
- (c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, the unit operator shall file with the AO evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the unit operator, together with an application in quadruplicate, for approval of such expansion or contraction and with appropriate joinders.
- (d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, become effective as of the date prescribed in the notice thereof or such other appropriate date. (e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of

which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90-days time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this Subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90 percent (90%) of the working interest in the current nonparticipating unitized lands and the owners of 60 percent (60%) of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the AO, provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.

### **3. UNITIZED LAND AND UNITIZED SUBSTANCES.**

All land now or hereafter committed to this agreement or unleased Federal land shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement." All oil and gas in any and all formations of the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances."

### **4. UNIT OPERATOR.**

READ & STEVENS, INC. is hereby designated as unit operator and by signature hereto as unit operator agrees and consents to accept the duties and obligations of unit operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to the unit operator as the owner of a working interest only when such an interest is owned by it.



## **5. RESIGNATION OR REMOVAL OF UNIT OPERATOR.**

The unit operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release the unit operator from the duties and obligations of unit operator and terminate the unit operator's rights as such for a period of 6 months after notice of intention to resign has been served by the unit operator on all working interest owners and the AO and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO, unless a new unit operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of unit operator prior to the expiration of said period.

The unit operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of the unit operator shall not release the unit operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the AO.

The resignation or removal of the unit operator under this agreement shall not terminate its right, title, or interest as the owner of working interest or other interest in unitized substances, but upon the resignation or removal of the unit operator becoming effective, such unit operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the new duly qualified successor unit operator or to the common agent, if no such new unit operator is selected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

## **6. SUCCESSOR UNIT OPERATOR.**

Whenever the unit operator shall tender his or its resignation as unit operator or shall be removed as hereinabove provided, or a change of unit operator is negotiated by the working interest owners, the owners of the working interests according to their respective acreage interests in all unitized land shall, pursuant to the approval of the parties requirements of the Unit Operating Agreement, select a successor unit operator. Such selection shall not become effective until:

(a) A unit operator so selected shall accept in writing the duties and responsibilities of the unit operator, and

(b) The selection shall have been approved by the AO.

If no successor unit operator is selected and qualified as herein provided, the AO at his election may declare this Unit Agreement terminated.

#### **7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.**

If the unit operator is not the sole owner of working interests, costs and expenses incurred by the unit operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the unit operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement." Such Unit Operating Agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between the unit operator and the working interest owners as may be agreed upon by the unit operator and the working interest owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the unit operator of any right or obligation established under this Unit Agreement, and in the case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall govern. Two copies of any Unit Operating Agreement executed pursuant to this Section shall be filed in the proper BLM office prior to approval of this Unit Agreement.

#### **8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.**

Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with the unit operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

#### **9. DRILLING TO DISCOVERY.**

Within 6 months after the effective date hereof, the unit operator shall commence to drill an adequate test well at a location approved by the AO, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the Cisco formation has been tested or until at a lesser depth Unitized Substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the unit

operator shall at any time establish to the satisfaction of the AO that further drilling of said well would be unwarranted or impracticable, provided, however, that the unit operator shall not in any event be required to drill said well to a depth in excess of 5600 feet. Until the discovery of Unitized Substances capable of being produced in paying quantities, the unit operator shall continue drilling one well at a time, allowing not more than 6 months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing Unitized Substances in paying quantities is completed to the satisfaction of the AO or until it is reasonably proved that the Unitized Land is incapable of producing Unitized Substances in paying quantities in the formations drilled hereunder. Nothing in this Section shall be deemed to limit the right of the unit operator to resign as provided in Section 5, hereof, or as requiring the unit operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) Section(s), within the time allowed including any extension of time granted by the AO, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO may, after 15 days notice to the unit operator, declare this Unit Agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the Unit Agreement approval being declared invalid ab initio by the AO. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit approval being declared invalid ab initio by the AO.

#### **10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.**

Within 6 months after completion of a well capable of producing Unitized Substances in paying quantities, the unit operator shall submit for the approval of the AO an acceptable Plan of Development and Operation for the Unitized Land which, when approved by the AO, shall constitute the further drilling and development obligations of the unit operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the unit operator shall submit for the approval of the AO a plan for an additional specified period for the development and operation of the Unitized Land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the Unitized Area, and for the diligent drilling necessary for determination of the area or areas capable of producing Unitized Substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO may determine to be necessary for timely development and proper conservation of the oil and gas resources in the unitized area

and shall:

(a) Specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) Provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved Plan of Development and Operation. The AO is authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial Plan of Development and Operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing Unitized Substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, shall be drilled except in accordance with an approved plan of development and operation.

#### **11. PARTICIPATION AFTER DISCOVERY.**

Upon completion of a well capable of producing Unitized Substances in paying quantities, or as soon thereafter as required by the AO, the unit operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of Unitized Substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this Unit Agreement, whichever is later. The acreages of both Federal and Non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective day of each initial participating area. The schedule shall also set forth the percentage of Unitized Substances to be allocated, as provided in Section 12, to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the Participating Area. A different participating area shall be established for each separate pool or deposit of Unitized Substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, to include additional lands then regarded as reasonably proved to be productive of Unitized Substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of Unitized Substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the unit operator and

approved by the AO. No land shall be excluded from a participating area on account of depletion of its Unitized Substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this Section that a participating area shall represent the area known or reasonably proved to be productive of Unitized Substances in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the unit operator and the AO as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests. Royalties due the United States shall be determined by the AO and the amount thereof shall be deposited, as directed by the AO, until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, that a well drilled under this agreement is not capable of production of Unitized Substances in paying quantities and inclusion in a participating area of the land on which it is situated is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the Unit Operating Agreement.

## **12. ALLOCATION OF PRODUCTION.**

All Unitized Substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, for repressuring or recycling in accordance with a Plan of Development and Operations which has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of Unitized Land of the participating area established for such production. For the purpose of determining any benefits accruing under this agreement, each such tract of Unitized Land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of Unitized Land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of respective working interest owner, shall be on the basis prescribed in the Unit Operating Agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of Unitized Substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of



the participating area. For unleased Federal acreage, the unit operator must set aside all funds attributable to unleased Federal acreage in an interest-earning escrow or trust account. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

### **13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS.**

Any operator may, with the approval of the AO, at such party's sole risk, costs, and expense, drill a well on the Unitized Land to test any formation provided the well is outside any participating area established for that formation, unless within 90 days of receipt of notice from said party of his intention to drill the well, the unit operator elects and commences to drill the well in a like manner as other wells are drilled by the unit operator under this agreement.

If any well drilled under this section by a non-unit operator results in production of Unitized Substances in paying quantities such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the unit operator in accordance with the terms of this Agreement and the Unit Operating Agreement.

If any well drilled under this section by a non-unit operator obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same, subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

### **14. ROYALTY SETTLEMENT.**

The United States and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the Unitized Substances, and the unit operator, or the non-unit operator in the case of the operation of a well by a non-unit operator as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by an operator responsible therefore under existing contracts, laws, and regulations, or by the unit operator on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the responsible parties of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a Plan of Development and Operation approved by the AO, a like amount of

gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in the approved Plan of Development and Operation or as may otherwise be consented to by the AO as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to Unitized Federal Land as provided in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

#### **15. RENTAL SETTLEMENT.**

Rental or minimum royalties due on leases committed hereto shall be paid by the appropriate parties under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the responsible parties of any land from their respective obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

#### **16. CONSERVATION.**

Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

#### **17. DRAINAGE.**

The unit operator shall take such measures as the AO deems appropriate and adequate to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty as determined by the AO.

## **18. LEASES AND CONTRACTS CONFORMED AND EXTENDED.**

The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.
- (b) Drilling and producing operations performed hereunder upon any tract of Unitized Lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of Unitized Land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.
- (c) Suspension of drilling or producing operations on all Unitized Lands pursuant to direction or consent of the AO shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of Unitized Land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil or gas of lands other than those of the United States committed to this agreement which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.
- (e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of Unitized Substance in paying quantities is established under this Unit Agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on Unitized Land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for 2 years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.
- (f) Each sublease or contract relating to the operation and development of Unitized Substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire is hereby extended beyond any such term so provided therein so that it

shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(m) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781- 784) (30 U.S.C. 226(m): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 CFR 3107.3-2 and 43 CFR 3107.4, respectively, shall not be effective.

#### **19. COVENANTS RUN WITH LAND.**

The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon unit operator until the first of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

#### **20. EFFECTIVE DATE AND TERM.**

This agreement shall become effective upon approval by the AO and shall automatically terminate 5 years from said effective date unless:

(a) Upon application by the unit operator such date of expiration is extended by the AO, or

(b) It is reasonably determined prior to the expiration of the fixed term or any extension thereof that the Unitized Land is incapable of production of Unitized Substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the unit operator to all parties in interest at their last known addresses, this agreement is terminated with the approval of the AO, or

(c) A valuable discovery of Unitized Substances in paying quantities has been made or accepted on Unitized Land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long hereafter as Unitized Substances can be produced in quantities sufficient to pay for the cost of producing same from wells on Unitized Land within any participating area established hereunder. Should production cease and diligent drilling or reworking operations to restore production or new production are not in progress within 60 days and production is not restored or should new production not be obtained in paying quantities on

committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred, or

(d) It is voluntarily terminated as provided in this agreement. Except as noted herein, this agreement may be terminated at any time prior to the discovery of Unitized Substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO. The unit operator shall give notice of any such approval to all parties hereto. If the public interest requirement is not satisfied, the approval of this unit by the AO shall be invalid.

## **21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.**

The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any statewide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in such state. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with the authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

Powers in this section vested in the AO shall only be exercised after notice to the unit operator and opportunity for hearing to be held not less than 15 days from notice.

## **22. APPEARANCES.**

The unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and to appeal from orders issued under the regulations of said Department, or to apply for relief from any of said regulations, or in proceedings relative to operations before the Department, or any other legally constituted authority; provided, however, that any other interested party shall also have the right, at its own expense, to be heard in any such proceeding.

## **23. NOTICES.**

All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

## **24. NO WAIVER OF CERTAIN RIGHTS.**

Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where the Unitized Lands are located, or of the United States, or regulations



issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

**25. UNAVOIDABLE DELAY.**

All obligations under this agreement requiring the unit operator to commence or continue drilling, or to operate on, or produce Unitized Substances from any of the lands covered by this agreement, shall be suspended while the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material or equipment in the open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

**26. NONDISCRIMINATION.**

In connection with the performance of work under this agreement, the unit operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 FR 12319), as amended, which are hereby incorporated by reference in this agreement.

**27. LOSS OF TITLE.**

In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this Unit Agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal lands or leases, no payments of funds due the United States shall be withheld, but such funds shall be deposited as directed by the AO, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

**28. NONJOINDER AND SUBSEQUENT JOINDER.**

If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper BLM office and the unit operator prior to the approval of this agreement by the AO. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the Unit Operating

Agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such nonworking interest. A non-working interest may not be committed to this Unit Agreement unless the corresponding working interest is committed hereto. Joinder to the Unit Agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

## **29. COUNTERPARTS.**

This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

## **30. SURRENDER.**

Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operations hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If as the result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the Unitized Substances, such owner may:

- (a) Accept those working interest rights subject to this Agreement and the Unit Operating Agreement; or
- (b) Lease the portion of such land as is included in a participating area established hereunder subject to this Agreement and the Unit Operating Agreement; or
- (c) Provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to

this Agreement and the Unit Operating Agreement or lease such lands as above provided within 6 months after the surrendered or forfeited working interest rights become vested in the fee owner; the benefits and obligations of operations accruing to such lands under this Agreement and the Unit Operating Agreement shall be shared by the remaining owners of Unitized Working Interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of Unitized Substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interests subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within 30 days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

### **31. TAXES.**

The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the Unitized Substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interests in said tract, and may currently retain and deduct a sufficient amount of the Unitized Substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States, the State of New Mexico, or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

### **32. NO PARTNERSHIP.**

It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

### **33. WILDLIFE STIPULATION.**

Nothing in this Unit Agreement shall modify the special Federal lease stipulations applicable to lands under the jurisdiction of the United States Fish and Wildlife Service.

**35. RECLAMATION LANDS.**

Nothing in this agreement shall modify the special, Federal lease stipulations applicable to lands under the jurisdiction of the Bureau of Reclamation.

**36. POWERSITES.**

Nothing in this agreement shall modify the special, Federal lease stipulations applicable to lands under the jurisdiction of the Federal Energy Regulatory Commission.

**IN WITNESS WHEREOF**, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Date of Signature

March 11, 2003

UNIT OPERATOR

READ & STEVENS, INC.

By: [Signature]

Charles B. Read, President

WORKING INTEREST OWNERS

LINCOLN OIL & GAS, L.L.C.

By: [Signature]

William A. Bradshaw, Managing Partner

Date of Signature

March 11, 2003

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_

Date of Signature

STATE OF New Mexico  
COUNTY OF Chaves

The foregoing instrument was acknowledged before me this 11<sup>th</sup> day of March, 2003, by Charles B. Read as President of Read + Jensen, a New Mexico corporation on behalf of said Corporation.

WITNESS my hand and official seal.

Mary L. Page  
Notary Public

My Commission Expires:

10-7-05

\*\*\*\*\*

STATE OF New Mexico  
COUNTY OF Chaves

The foregoing instrument was acknowledged before me this 11<sup>th</sup> day of March, 2003 by William A. Bradshaw as Managing Partner of Lincoln O + G, LLC, a New Mexico corporation on behalf of said Corporation/limited liability company, on behalf of said Company.

WITNESS my hand and official seal.

Mary L. Page  
Notary Public

My Commission Expires:

10-7-05

\*\*\*\*\*

#### INDIVIDUAL ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_)

COUNTY OF \_\_\_\_\_)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003 by \_\_\_\_\_ and \_\_\_\_\_.

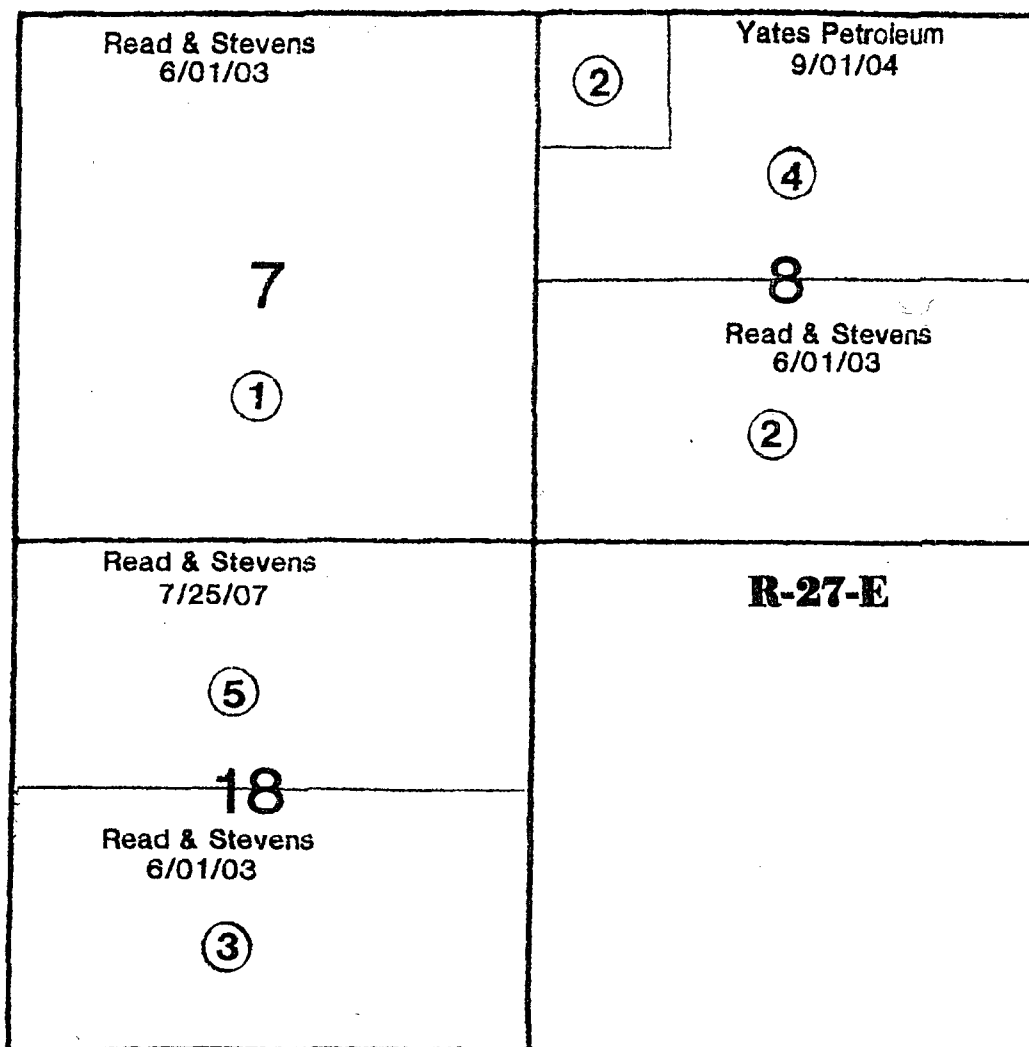
My Commission Expires:

\_\_\_\_\_  
Notary Public



READ & STEVENS, INC.  
EXHIBIT A  
WEST HAYSTACK AREA  
CHAVES CO., NEW MEXICO  
1910.86 gross acres

**T-6-S**



- ☐ Tract Number Listed on Exhibit B
- ☐ Public Land
- ☒ Private Land

## CHAVES COUNTY, NEW

TRACT NO.	DESCRIPTION OF LAND	ACRES	SERIAL NO./ LEASE EXPIRATION DATE	BASIC ROYALTIES & OWNERSHIP PERCENTAGE	
1	T6S-R27E Section 7: Lots 1-4, E/2W/2, E/2	635.04	NMNM-90872 5/31/2003	USA - All of 12.5%	Re
2	T6S-R27E Section 8: NW/4NW/4, S/2	360.00	NMNM-90873 5/31/2003	USA - All of 12.5%	Re
3	T6S-R27E Section 18: Lots 3 & 4, E/2SW/4, SE/4	317.70	NMNM-90876 5/31/2003	USA - All of 12.5%	Re
4	T6S-R27E Section 8: NE/4, E/2NW/4, SW/4NW/4	280.00	NMNM-93468 8/31/2004	USA - All of 12.5%	Ya A MY
5	T6S-R27E Section 18: Lots 1 & 2 E/2NW/4, NE/4	318.06	Private Lands 7/25/2007	Mary Lou Couch - All of 16.67%	Re
	<b>TOTAL</b>	<b>1910.80</b>			

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO

READ & STEVENS, INC.

OPERATOR

**EXHIBIT 3**

**United States Department of the Interior**

BUREAU OF LAND MANAGEMENT  
ROSWELL FIELD OFFICE  
2909 West Second Street  
Roswell, New Mexico 88201-2019

IN REPLY REFER  
NMNM109670X  
3180 (06300)

FEB 25 2003

Read & Stevens, Inc.  
Attention: Robert H. Watson  
P. O. Box 1518  
Roswell, NM 88202

Gentlemen:

Your application of February 14, 2003 filed with the BLM requests the designation of the West Haystack Unit area, embracing 1910.80 acres, more or less, Chaves County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 43 CFR 3180, the land requested as outlined on your plat marked Exhibit A, Read & Stevens, Inc., West Haystack Unit, Chaves County, New Mexico, is hereby designated as a logical unit area and has been assigned No. NMNM109670X. This designation is valid for a period of one year from the date of this letter.

The unit agreement submitted for the area designated should provide for a well to test the Cisco formation, or to a depth of 5600 feet, whichever is the lesser depth. Your proposed use of the Form of Agreement for Unproved Areas will be accepted. Corrections to be made to Exhibit B are marked in red on the enclosed Exhibit B.

If conditions are such that modification of said standard form is deemed necessary, two copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

In the absence of any type of land requiring special provisions or any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

When the executed agreement is transmitted to the BLM for final approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the reprint of the aforementioned form.

Inasmuch as this unit agreement involves Fee lands, a copy of the letter is being sent to the NMOCD. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the state.

Sincerely,



*n* Larry D. Bray  
Assistant Field Manager,  
Lands and Minerals

1 Enclosure



February 14, 2003

Bureau of Land Management  
P.O. Drawer 1857  
Roswell, NM 88202  
Attn: Mr. Armando Lopez

Re: West Haystack Area  
T6S-R27E, NMPM  
Sec. 7: Lots 1-4, E/2W/2, E/2; NM-90872  
Sec. 8: S/2, NW/4NW/4; NM-90873  
Sec. 8: NE/4, E/2NW4, SW/4NW4; NM-93468  
Section 18: Lots 1 & 2, E/2NW/4, NE/4; Private  
Lots 3 & 4, E/2SW/4, SE/4; NM-90876  
Containing 1910.80 acres, more or less, in Chaves County, NM

Gentlemen:

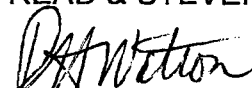
READ & STEVENS, INC., as operator, proposes the formation of a federal exploratory unit encompassing the captioned lands. Attached is an Exhibit "A" and Exhibit "B" setting forth the required information. We propose to use the standard form of exploratory unit agreement.

READ & STEVENS, INC., as Operator, proposes to drill the initial well at a legal location in the SW/4 of Section 18, T6S-R27E to test the Cisco formation at an estimated depth of 5600'. Enclosed is a geological summary and maps setting forth our subsurface interpretation of the captioned area. Please keep this information CONFIDENTIAL.

Should you require anything further, please contact this office.

Respectfully,

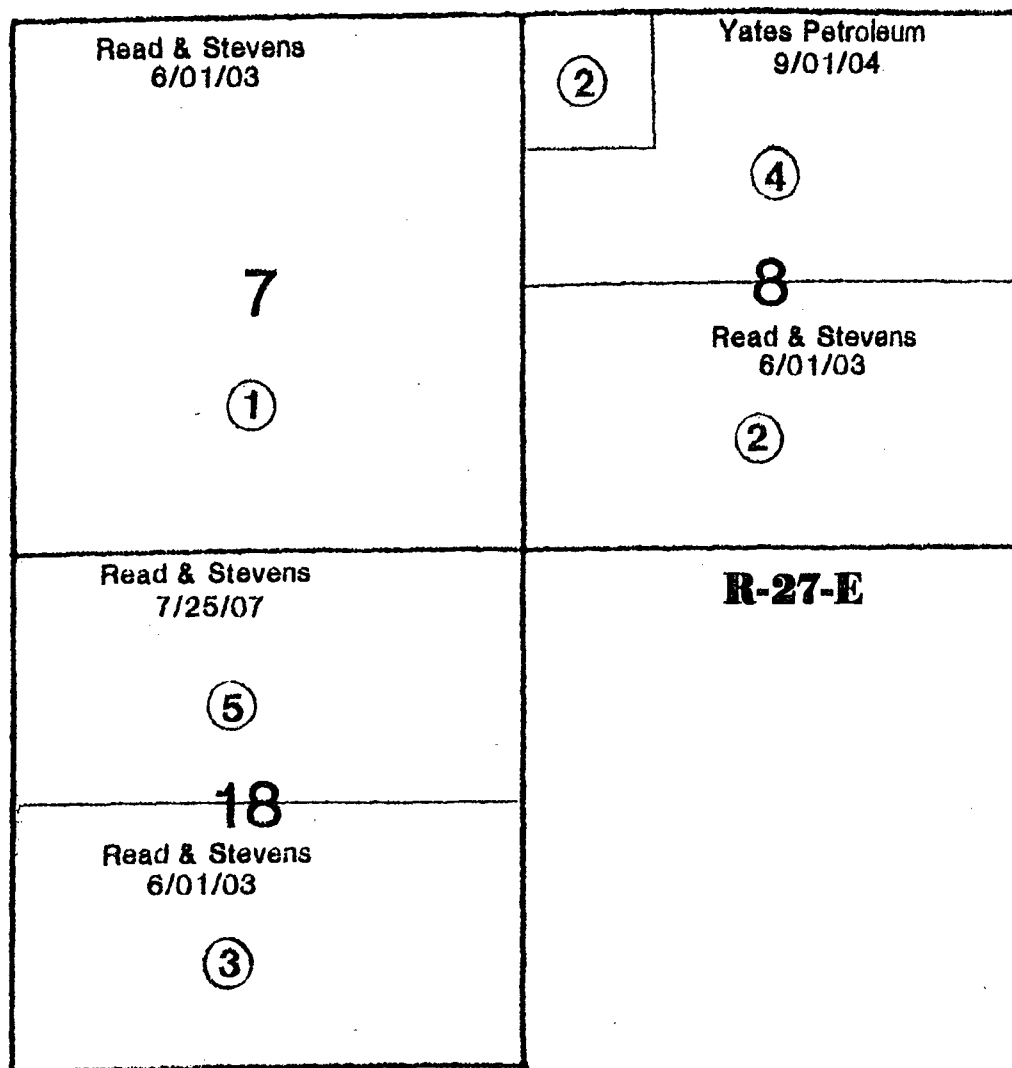
READ & STEVENS, INC.



Robert H. Watson  
Land Manager

**READ & STEVENS, INC.**  
**EXHIBIT A**  
**WEST HAYSTACK AREA**  
**CHAVES CO., NEW MEXICO**  
1910.86 gross acres

**T-6-S**



- Tract Number Listed on Exhibit B
- Public Land
- Private Land

EXHIBIT "B"  
WEST HAYSTACK AREA  
CHAVES COUNTY, NEW MEXICO

[illegible]

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO  
READ & STEVENS, INC.  
OPERATOR

**EXHIBIT 4**

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF READ & STEVENS, INC.  
FOR APPROVAL OF A UNIT AGREEMENT,  
CHAVES COUNTY, NEW MEXICO.

Case No. 13,033

AFFIDAVIT REGARDING NOTICE

STATE OF NEW MEXICO            )  
                                      ) ss.  
COUNTY OF CHAVES            )

Robert H. Watson, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. I am a landman for Applicant.

3. Applicant has conducted a good faith, diligent effort to find the names and correct addresses of the interest owners entitled to receive notice of the Application filed herein.

4. Notice of the Application was provided to the interest owners at their correct addresses by certified mail. Copies of the notice letters and certified return receipts are attached hereto as Exhibit A.

5. Applicant has complied with the notice provisions of Division Rule 1207.

Robert H. Watson  
Robert H. Watson

SUBSCRIBED AND SWORN TO before me this 25<sup>th</sup> day of March, 2003, by Robert H. Watson.

Mary L. Page  
Notary Public

My Commission Expires:

10-7-05

UNITED BANK PLAZA  
400 N. PENN, SUITE 1000

CHARLES B. READ  
PRESIDENT

PHONE 505 622-3770  
FAX 505 622-8643

*Read & Stevens, Inc.*

*Oil Producers*

*P. O. Box 1518*

*Roswell, New Mexico 88202*

February 27, 2003

TO ATTACHED ADDRESS LIST

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear Owners:

Enclosed is a copy of an application for approval of a unit agreement, filed with the New Mexico Oil Conservation Division by READ & STEVENS, INC. regarding the proposed West Haystack Unit Area located in Township 6 South, Range 27 East, NMPM, Chaves County, New Mexico. This application is set for hearing at 8:15 a.m. on Thursday, March 27, 2003, at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. As an interest owner in the unit area, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

You are required to notify the Division by Friday, March 21, 2003, if you intend to enter an appearance and participate in the case.

Respectfully,

READ & STEVENS, INC.



Robert H. Watson  
Land Manager

RHW: mp  
Enclosures

## **ADDRESS LIST**

YATES PETROLEUM CORP. (WI OWNER)  
ABO PETROLEUM, INC.  
MYCO INDUSTRIES, INC.  
YATES DRILLING COMPANY  
105 S. Fourth Street  
Artesia, NM 88210  
Attn: Mr. Chuck Moran

LINCOLN OIL & GAS, L.L.C. (WI OWNER)  
C/o P.O. Box 1518  
Roswell, NM 88202

MARY LOU COUCH (ROYALTY OWNER)  
5454 Bartlett Drive  
San Bernardino, CA 92407-2709

FIRST CENTURY OIL, INC (ORRI OWNER)  
P.O. Box 1518  
Roswell, NM 88202



BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF READ & STEVENS, INC.  
FOR APPROVAL OF A UNIT AGREEMENT,  
CHAVES COUNTY, NEW MEXICO.

No. \_\_\_\_\_

APPLICATION

Read & Stevens, Inc. applies for an order approving the Unit Agreement for the proposed West Haystack Unit Area, and in support thereof, states:

1. Applicant is a working interest owner in, and the operator of, the proposed West Haystack Unit Area, which comprises 1910.80 acres of federal and fee lands in Chaves County, New Mexico, described as follows:

Township 6 South, Range 27 East, N.M.P.M.  
Section 7: Lots 1-4, E $\frac{1}{2}$ W $\frac{1}{2}$ , and E $\frac{1}{2}$  (All)  
Section 8: All  
Section 18: Lots 1-4, E $\frac{1}{2}$ W $\frac{1}{2}$ , and E $\frac{1}{2}$  (All)

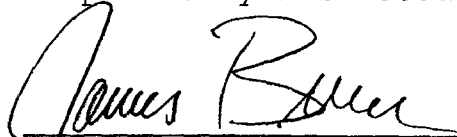
2. The proposed unit area has been preliminarily approved by the United States Bureau of Land Management as a logical unit.

3. Approval of the proposed unit area is necessary to conserve natural resources.

4. The granting of this application is in the interests of conservation, the prevention of waste, and the protection of correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the relief requested above be granted.

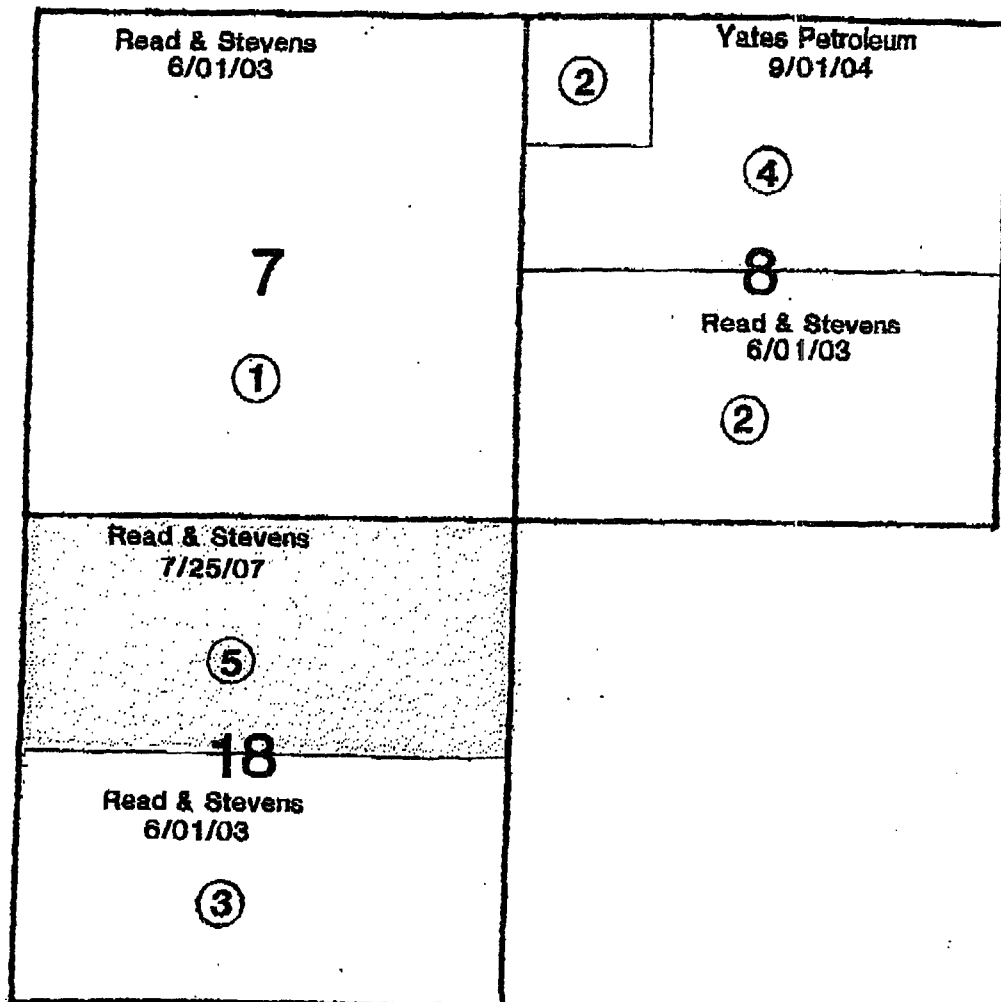
Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", written over a horizontal line.

James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Read & Stevens, Inc.

**READ & STEVENS, INC.**  
**EXHIBIT A**  
**WEST HAYSTACK AREA**  
**CHAVES CO., NEW MEXICO**  
1910.86 gross acres



○ Tract Number Listed on Exhibit B

□ Public Land

■ Private Land



[illegible]

DATE: 05/20/2018

## SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

## 1. Article Addressed to:

Gates Petroleum Corp.  
GPO Petroleum Inc.  
Mico Industries  
Gates Drilling  
105 S. 4th St.  
Artesia, NM  
ATTN: Chuckman 88210

## 2. Article Number

7002 0460 0000 2472 6073

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

## COMPLETE THIS SECTION ON DELIVERY

## A. Signature

X

Kathy Donaghe

## B. Received by (Printed Name)

## C. Date of Delivery

KATHY DONAGHE

D. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No

## 3. Service Type

- ☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

## 4. Restricted Delivery? (Extra Fee)

☐ Yes

## SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

## 1. Article Addressed to:

Mary Lou Couch  
5454 Bartlett Dr  
San Bernardino,  
CA  
92407-2709

## COMPLETE THIS SECTION ON DELIVERY

## A. Signature

X

Mary Lou Couch

☐ Agent☐ Addressee

## B. Received by (Printed Name)

## C. Date of Delivery

Mary Lou Couch

3-4

D. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No

## 3. Service Type

- ☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

## 4. Restricted Delivery? (Extra Fee)

☐ Yes

## 2. Article Number

7002 0460 0000 2472 6066

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035

February 10, 2003

Mary Lou Couch  
C/o Ms. Jean Horan  
5454 Bartlett Drive  
San Bernardino, California 92407-2709

Re: Oil & Gas Lease dated 7-25-02  
Lots 1,2, E/2NW/4 & NE/4  
of Sec. 18, T6S-R27E  
Chaves County, NM; R&S #9999

Dear Ms. Horan:

With reference to our recent telephone conversation, READ & STEVENS, INC. is forming a federal exploratory unit to include Mrs. Couch's oil and gas lease. In order to commit this lease to the unit, we must have her authority to do so. Enclosed is an Amendment of Oil & Gas Lease and a Consent and Ratification form.

Please have Mrs. Couch sign and date both forms in the presence of a Notary Public and return both forms in the enclosed stamped, self-addressed envelope. I have enclosed an incomplete copy of the unit agreement for your records. A fully executed copy of the unit agreement will be furnished as soon as it becomes available.

Should you have any questions, please contact this office.

Respectfully,

READ & STEVENS, INC.



Robert H. Watson  
Land Manager

RHW: mp  
Enclosures

## AMENDMENT OF OIL AND GAS LEASE

**STATE:** New Mexico  
**COUNTY:** Chaves  
**LESSOR:** Mary Lou Couch, Individually and as Conservator of the Estate of Howard E. Couch, deceased  
**LESSOR'S ADDRESS:** 5454 Bartlett Drive; San Bernardino, CA 92407-2709  
**LESSEE:** READ & STEVENS, INC.  
**LESSEE'S ADDRESS:** P.O. Box 1518, Roswell, NM 88202  
**EXECUTION DATE:** August 1, 2002  
**EFFECTIVE DATE:** July 25, 2002

On August 1, 2002, Lessor executed and delivered to Lessee, an Oil and Gas Lease (the "lease"), recorded in Volume 438, Page 1606 of the Official Public Records of the county and state named above, which lease covers the following lands:

Township 6 South, Range 27 East, N.M.P.M.  
 Section 8: Lots 1, 2, E/2NW/4 and NE/4  
 Containing 318.06 acres, more or less,  
 In Chaves County, New Mexico

This lease is recognized by Lessor as being in full force and effect.

This lease is presently owned by Lessee and its assignees. It is the desire of the Lessor and Lessee to amend the lease as to the particular provisions set out below.

FOR adequate consideration, Lessor and Lessee hereby amend the lease by including the following language to Article 5 of the above described oil and gas lease, as if originally contained in said lease:

**"Lessor is further granted the right and power to commit this lease as to all or any portion or horizons described above to any unit agreement for the purpose of conserving natural resources of any oil or gas pool, field or area; provided such unit agreement contains the customary provisions for allocation of oil and gas produced from the unit area and each unit agreement embraces lands of either the United States or the State of New Mexico, and the form of unit agreement has been approved by either the Bureau of Land Management or Commissioner of Public Lands and the New Mexico Oil Conservation Division, and upon such commitment the provisions of this lease shall be conformed to the unit agreement."**

If the amendment set out above varies from provisions or terms already existing in the lease, the amending provision specifically supersedes the provisions or terms originally contained in the lease.

For the consideration provided, Lessor grants, leases and lets to Lessee the lands for the term provided in the lease, as it is amended by this agreement.

EXECUTED AND EFFECTIVE this 10<sup>th</sup> day of February, 2003.

**LESSOR**

Mary Lou Couch, Individually and as Conservator of the Estate of Howard E. Couch, deceased.

By: Mary Lou Couch  
 Mary Lou Couch

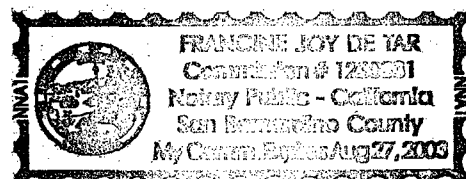
**LESSEE**

READ & STEVENS, INC.

By: Charles B. Read  
 Charles B. Read, President



Mary L Page  
Notary Public



**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mary Lou Couch  
5454 Bartlett Dr  
San Bernardino,  
CA  
92407-2709

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X) Mary Lou Couch

☐ Agent

☐ Addressee

B. Received by (Printed Name)

Mary Lou Couch 3-4

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

7002 0460 0000 2472 6066

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO  
READ & STEVENS, INC.  
OPERATOR

**EXHIBIT 5**

# MEMO

**To:** New Mexico Oil Conservation Division

**From:** READ & STEVENS, INC.

**Date:** 03/25/03

**Re:** West Haystack Unit 18 Fed. Com. #1

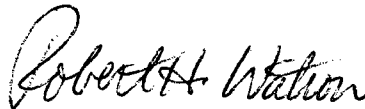
W/2 Section 18, T6S-R27E

Chaves County, NM, R&S #10,037W

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A formal A.F.E. for this well has not yet been prepared. However, we estimate the 100% well costs to be as follows:

Dry Hole Cost	\$290,000.00
Completion Cost	<u>\$150,000.00</u>
Total Well Cost	\$450,000.00



Robert H. Watson

Land Manager

WEST HAYSTACK UNIT  
CHAVES COUNTY, NEW MEXICO  
READ & STEVENS, INC.  
OPERATOR

**EXHIBIT 6**

March 20, 2003

Yates Petroleum Corporation  
Yates Drilling Company  
MYCO Industries, Inc.  
ABO Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attn: Mr. Chuck Moran

Re: West Haystack Unit  
All of Sections 7, 8 & 18, T16S-R27E  
Chaves County, NM  
R&S # 10037W

Gentlemen:

READ & STEVENS, INC. proposes to form the captioned federal exploratory unit which includes your federal lease NMNM-93468 covering the NE/4, E/2NW/4 and SW/4NW/4 of Section 8, T6S-R27E, Chaves County, New Mexico. READ & STEVENS, INC. invites your joinder of this unit and your participation in our proposed initial well, a 5600' Cisco test to be located at a legal location in the W/2 of Section 18, T6S-R27E.

Enclosed is a copy of the Unit Agreement. If you elect to join the unit, please execute, date and return the extra signature page of each document to this office. If you elect not to join, please indicate below and return a signed and dated copy of this letter to the undersigned.

Respectfully,

READ & STEVENS, INC.



Robert H. Watson  
Land Manager

RHW: mp  
Enclosures



\_\_\_\_\_ELECT to join the unit. Executed signature pages enclosed.

\_\_\_\_\_DO NOT ELECT to join the unit.

YATES PETROLEUM CORPORATION  
YATES DRILLING COMPANY  
MYCO INDUSTRIES, INC.  
ABO PETROLEUM CORPORATION

By: \_\_\_\_\_



## GEOLOGIC SUMMARY

### WEST HAYSTACK UNIT

Read & Stevens, Inc. recommends drilling a well in the SW/4 of Section 18, Township 6 South, Range 27 East, Chaves County, New Mexico. The primary objective is the Cisco formation that produces natural gas at 5,600'. This carbonate reservoir is productive from Cisco limestone pay zones 20-30' in thickness (See attached cross-section for "Typelog"). Read & Stevens drilled four wells in Sections 19, 20, & 30, Township 6 South, Range 27 East. Two of these wells produced gas from the Cisco formation, which is structurally trapped. The enclosed Mississippian seismic map reflects the Cisco structure. The West Haystack #1 & #4 drilled in sections 19 & 30 are commercial wells respectively that produce from the Cisco and are projected to make 1.3 BCFG per well. The down dip limit of the field has been tested in the West Haystack #2 in the SW/4 of Section 20, which tested 2.2 MMCFD before watering out. This well defines the approximate down dip edge of the productive limit of the field. The (-2225) subsea contour on the Miss seismic map illustrates the down dip edge of this gas field. The West Haystack #5 most recently drilled in the W/2 of Section 19 was structurally high but encountered low permeable Cisco reservoir that is non-productive. The better Cisco production appears to be associated with gas wells located along the flanks of this structure. Read & Stevens purchased additional seismic and land to develop their Cisco play to the North/Northeast. The recent increase in gas price is an incentive to drill the untested structures in sections 7, 8, & 18, Township 6 South, Range 27 East.

OIL CONSERVATION DIVISION

CASE NUMBER \_\_\_\_\_

EXHIBIT \_\_\_\_\_

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